

4-1-2007

Fiscal News, April 2007

Maine State Legislature

Office of Fiscal and Program Review

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Recommended Citation

Maine State Legislature; Office of Fiscal and Program Review; and Pennoyer, Grant T., "Fiscal News, April 2007" (2007). *Office of Fiscal and Program Review*. Paper 77.

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FISCAL NEWS

MONTHLY NEWSLETTER OF THE OFFICE OF FISCAL AND PROGRAM REVIEW

APRIL 2007

Volume 1, Number 4

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The Office of Fiscal and Program Review (OFPR) is a nonpartisan staff office of the Legislative Council providing budget, tax and general fiscal research and analysis for the Maine State Legislature.



Month In Review

The Appropriations Committee interrupted their work on the budget during the last week of March to work on a borrowing package in order to meet an early April deadline for enactment in order to be able to include any items on a June 2007 referendum ballot. The Legislature enacted the unanimous committee report on this package with very strong support (see article on page 5).

The Taxation Committee had been aggressively pursuing tax reform in March, but turned its attention back to addressing its very heavy bill workload for most of April. The committee will be returning back to tax reform discussions during the first week of May.

April is a big revenue month with the individual income tax filing deadline and the annual payment under the tobacco settlement agreement. Both of these revenue sources came in above expectations.

General Fund Revenue Update

Total General Fund Revenue - FY 2007 - March 2007 (Millions of \$'s)

	Budget	Actual	Var.	% Var.	Prior Year	% Growth
Mar '07	177.0	173.6	(3.4)	-1.9%	197.7	-12.2%
FYTD	1,866.8	1,874.6	7.9	0.4%	1,839.3	1.9%

General Fund revenue was under budget by \$3.4 million in March. This negative variance reflects the difference from the recently revised revenue forecast, which reduced FY 2007 General Fund revenue estimates by \$33.7 million. As a result of this revision, the Fiscal Year-to-date (FYTD) reflects a positive variance of \$7.9 million (+0.4%).

The Cigarette and Tobacco Tax and Insurance Companies Tax lines were the only negative variances among the major revenue lines through 3 quarters of FY 2007 after the adjustments of the March 2007 revenue forecast.

Processing of the individual income tax returns is nearly complete and the data suggests that final and estimated payments are above expectations and refunds were close to budget. As a result, the Individual Income Tax revenue line is expected to be \$10 to \$15 million over budget for the month of April. While this is good news, this positive variance is not expected to be large enough to warrant a special meeting of the Revenue Forecasting Committee to revisit the revenue forecast for the current fiscal year.



Highway Fund Revenue Update

Highway Fund revenue was under budget by \$2.0 million in March, largely as a result of a timing issue in the receipt of Motor Vehicle Registration and Fees. For the FYTD, Highway Fund revenue was under budget by \$2.3 million (-1.0%). Fuel Tax receipts, which had shown a modest turn around in February, retreated again in March and were under budget for the FYTD by \$0.7 million or -0.4%.

Total Highway Fund Revenue - FY 2007 - March 2007

(Millions of \$'s)

	Budget	Actual	Var.	% Var.	Prior Year	% Growth
Mar '07	28.7	26.7	(2.0)	-6.9%	28.2	-5.4%
FYTD	226.6	224.3	(2.3)	-1.0%	224.6	-0.1%

Tobacco Settlement Payments Update

Maine received its annual payment under the Tobacco Settlement Agreement on Monday, April 16th and another payment on April 18th. Combined with an additional payment in December 2006, Maine's tobacco settlement payments into the Fund for a Healthy Maine are approximately \$3.7 million more than budgeted revenue. Other revenue sources of the Fund for a Healthy Maine are performing well through March and it looks like this variance will hold up through the end of FY 2007.

Legal proceedings under the Master Settlement Agreement continue and participating manufacturers continue to withhold a portion of their annual payments pending the outcome of the proceedings. A substantial portion of the positive variance relates to the assumptions regarding these withholdings. Altria (Philip Morris) did not withhold from this year's payment, while the Revenue Forecasting Committee assumed that it would.

Cash Balances Update

Average Cash Pool balance was \$444.8 million in March. This is below the March average balances of the last 5 years of \$534.6 million. The lower than average balance primarily reflects the reliance on internal borrowing from Other Special Revenue Funds rather than using Tax Anticipation Note (TAN) borrowing.

General Fund internal borrowing has increased during recent months as the General Fund headed into a period of its greatest cash shortages before individual income tax collections in April buoy General Fund cash balances. General Fund internal borrowing averaged \$185.4 million in March and grew to \$236.0 million for the 1st half of April. General Fund cash position has recovered very quickly after April 17th from both the individual income tax processing and the repayment of \$20 million of General Fund cash advances to the Fund for a Healthy Maine. Internal borrowing dropped to \$43.0 million one week after the April 17th filing deadline.

Highway Fund average cash balance remained relatively low in March. The Department of Transportation has not been contracting for many projects due to the tight Highway Fund cash position. MDOT has been exploring options for internal borrowing or other cash flow borrowing to address this situation.

Summary of Treasurer's Cash Pool

March 2007 Average Daily Balances

Millions of \$'s

General Fund (GF) Total	\$13.4
General Fund (GF) Detail:	
Budget Stabilization Fund	\$112.8
Reserve for Operating Capital	\$40.6
Tax Anticipation Notes	\$0.0
Internal Borrowing	\$185.4
Other General Fund Cash	(\$325.4)
Other Spec. Rev. - Interest to GF	\$56.8
Other State Funds - Interest to GF	\$22.0
Highway Fund	\$18.7
Other Spec. Rev. - Retaining Interest	\$51.7
Other State Funds	\$170.2
Independent Agency Funds	\$112.1
Total Cash Pool	\$444.8

Highway Fund average balance was only \$18.7 million in March 2007 as opposed to average March balances of the last 5 years of \$65.1 million.



MaineCare Spending Update

Data reported to the Appropriations Committee and included in past issues of the Fiscal News tracks MaineCare spending and interim payment recoveries. Through April 13, 2007, week 41 of 52, data indicates the following:

- Interim payment recoveries (see Chart 1) have not moved above the trend line of the last few months and look like they will fall approximately \$30 million (both federal and state) short of the target of \$160 million; and
- The cap on weekly cycles, which was just lowered from \$36.5 million to \$34.7 for the week ending April 13, 2007, has resulted in the deferral of \$41.6 million (see Chart 2). The amount of the deferral is now greater than a cycle, meaning that some providers will begin to see delays in payments of more than one week.

In an April 23rd weekly MaineCare briefing to the Appropriations Committee, the Department of Health and Human Services (DHHS) indicated that they have been required by CMS (Centers for Medicare and Medicaid Services) to return the federal share of interim payments that providers have entered into agreements to repay (\$56.4 million), but have not yet repaid. DHHS indicated it has been able to prepay the federal portion of these funds (\$35.6 million) out of a supplemental federal grant award approved by CMS.

DHHS and the Office of the State Controller are working on entering the correct accounting entries on the State's accounting system for this prepayment. Contrary to what DHHS indicated at the April 23rd briefing, it now appears that interim payment recoveries will continue to be shared between federal funds and the General Fund.

Chart 1. MaineCare Interim Payment Recoveries FY 07

Actual Recoveries through 4/13/07 - Week 41 of 52

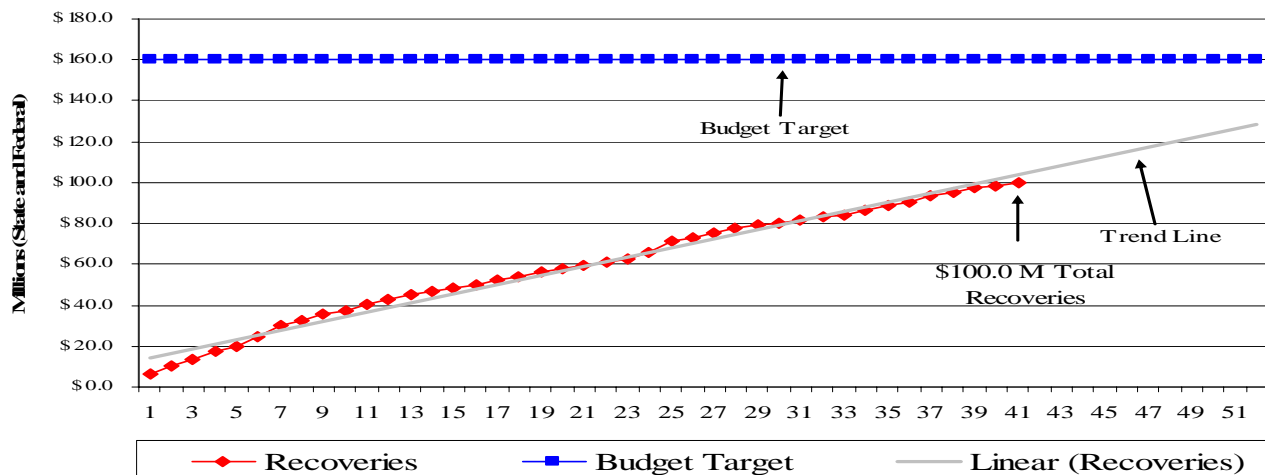
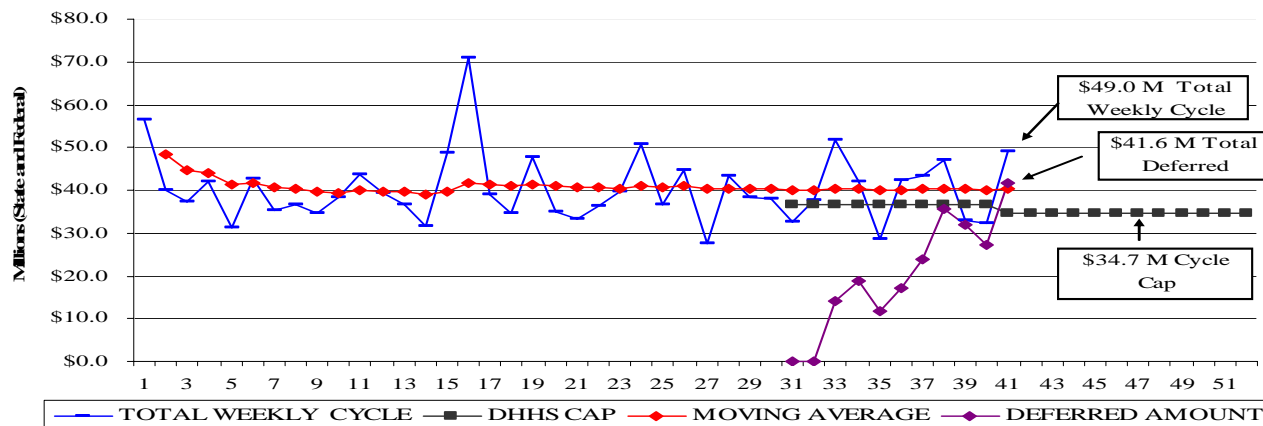


Chart 2. MaineCare FY 07 Total Weekly Cycles

Through 4/13/07 - Week 41 of 52



**Bond Package Summary**

The Appropriations Committee completed work on a borrowing package with just enough time to get it enacted so that the June 2007 bond issues could get included on the ballot for a June 12, 2007 election. The Appropriations Committee reviewed the Governor's bond package along with 50 other bond proposals and developed a \$295 million bond package as opposed to the \$397.5 million recommended by the Governor. The unanimous committee report also received strong support by the whole Legislature (138 to 6 in the House and 33-0 in the Senate).

The table below provides a summary of the bond package. The amount of matching or leveraged funds of the unanimous report are also presented below. The bond package is split between 3 separate elections: June 2007 will have 2 questions totaling \$131.3 million; November 2007 will have 3 questions totaling \$134.0 million; and June 2008 will have one question totaling \$29.7 million. A side-by-side comparison with the Governor's original bond package is available on OFPR's web site at: http://www.maine.gov/legis/ofpr/2007_Bond_Summary.pdf

Summary of Bond Package (LD 1796 as enacted as PL 2007, c. 39)

	Part *	Amount	Matching or Leveraged \$'s
June 2007 Bond Questions			
Transportation - General Fund	A	\$12,975,000	\$79,525,000
Highway and Bridges - Highway Fund	A	\$100,000,000	\$181,000,000
Waste Water Construction & Drinking Water Grants	B	\$18,300,000	\$49,500,000
June 2007 - Subtotal		\$131,275,000	\$310,025,000
November 2007 Bond Questions			
Higher Education Building Renovations	C	\$40,000,000	
School Revolving Loan Fund	C	\$1,500,000	
New Century Program	C	\$2,000,000	
Maine Technology Institute	D	\$50,000,000	\$50,000,000
Economic Development Loan and Grant Funds	D	\$5,000,000	\$100,000
Land for Maine's Future	E	\$17,000,000	\$8,500,000
Working Water Front	E	\$3,000,000	\$3,000,000
River-based Community & Economic Revitalization	E	\$5,000,000	\$10,000,000
Municipal Investment Trust Fund	E	\$1,500,000	
State Parks and Historic Sites	E	\$7,500,000	
Agricultural Water Source Development Grant Program	E	\$1,500,000	\$375,000
November 2007 - Subtotal		\$134,000,000	\$71,975,000
June 2008 Bond Questions			
Highway and Bridges - General Fund	G	\$10,000,000	\$18,100,000
Other Infrastructure Bond Items	G	\$19,725,000	\$11,680,000
June 2008 - Subtotal		\$29,725,000	\$29,780,000
Bond Package - Total		\$295,000,000	\$411,780,000

* Each Part represents a single question to be submitted to the voters at three different elections.

General Fund and Highway Fund Revenue
Fiscal Year Ending June 30, 2007
Reflecting March 2007 RFC Adjustments AND PL 2007, c. 1 (Emergency FY07 Supplemental Budget Bill)

MARCH 2007 REVENUE VARIANCE REPORT

Revenue Line	March '07 Budget	March '07 Actual	March '07 Var.	FY07 YTD Budget	FY07 YTD Actual	FY07 YTD Variance	FY07 YTD Variance %	FY07 Budgeted Totals
General Fund								
Sales and Use Tax	62,835,644	60,974,079.97	(1,861,564.03)	655,282,423	655,837,984.90	555,561.90	0.1%	974,740,367
Service Provider Tax	4,315,851	3,736,140.25	(579,710.75)	31,117,676	31,981,520.01	863,844.01	2.8%	48,911,765
Individual Income Tax	44,312,087	44,066,211.00	(245,876.00)	777,561,857	779,668,724.30	2,106,867.30	0.3%	1,327,119,508
Corporate Income Tax	18,679,646	18,679,646.33	0.33	106,541,808	106,541,807.58	(0.42)	0.0%	172,078,755
Cigarette and Tobacco Tax	13,697,409	14,083,915.50	386,506.50	123,250,918	120,356,860.06	(2,894,057.94)	-2.3%	164,502,981
Public Utilities Tax	(1,737,832)	(1,737,832.00)	0.00	(1,737,832)	(1,854,396.00)	(116,564.00)	-6.7%	16,891,746
Insurance Companies Tax	14,304,029	11,996,682.27	(2,307,346.73)	27,118,442	25,395,847.13	(1,722,594.87)	-6.4%	76,336,389
Estate Tax	3,505,457	3,602,473.39	97,016.39	34,938,213	37,282,151.61	2,343,938.61	6.7%	52,465,498
Property Tax - Unorganized Territory	0	0.00	0.00	10,150,628	10,403,375.00	252,747.00	2.5%	11,597,312
Income from Investments	(182,168)	(149,333.79)	32,834.21	1,504,400	1,547,482.40	43,082.40	2.9%	1,517,319
Transfer to Municipal Revenue Sharing	(6,637,304)	(6,500,259.95)	137,044.05	(80,095,692)	(80,275,531.88)	(179,839.88)	-0.2%	(128,665,369)
Transfer from Lottery Commission	4,748,533	4,568,247.80	(180,285.20)	37,988,267	38,127,188.63	138,921.63	0.4%	50,334,250
Other Revenue	19,168,830	20,279,256.88	1,110,426.88	143,167,509	149,633,016.21	6,465,507.21	4.5%	219,380,952
Totals	177,010,182	173,599,227.65	(3,410,954.35)	1,866,788,617	1,874,646,029.95	7,857,412.95	0.4%	2,987,211,473
Highway Fund								
Fuel Taxes	18,272,814	17,903,623.49	(369,190.51)	151,988,669	151,308,790.82	(679,878.18)	-0.4%	227,484,941
Motor Vehicle Registration and Fees	9,220,182	7,738,805.95	(1,481,376.05)	61,517,152	60,389,367.91	(1,127,784.09)	-1.8%	86,476,317
Inspection Fees	354,276	277,693.00	(76,583.00)	3,249,202	3,281,583.90	32,381.90	1.0%	4,379,756
Fines	165,406	112,334.78	(53,071.22)	1,484,396	1,279,557.66	(204,838.34)	-13.8%	2,018,239
Income from Investments	50,000	70,213.96	20,213.96	616,643	600,283.87	(16,359.13)	-2.7%	795,000
Other Revenue	600,398	571,544.70	(28,853.30)	7,700,504	7,445,574.84	(254,929.16)	-3.3%	9,603,076
Totals	28,663,076	26,674,215.88	(1,988,860.12)	226,556,566	224,305,159.00	(2,251,407.00)	-1.0%	330,757,329

Comparison of Actual Fiscal Year-to-Date Revenue Through March of Each Fiscal Year

REVENUE CATEGORY	FY 2003	% Chg	FY 2004	% Chg	FY 2005	% Chg	FY 2006	% Chg	FY 2007	% Chg
GENERAL FUND										
Sales and Use Tax	\$571,205,681.44	2.4%	\$614,734,165.37	7.6%	\$600,936,171.28	2.5%	\$634,246,561.15	5.5%	\$655,837,984.90	3.4%
Service Provider Tax	\$0.00	N/A	\$0.00	N/A	\$28,977,986.46	N/A	\$30,027,668.72	3.6%	\$31,981,520.01	6.5%
Individual Income Tax	\$685,717,397.85	2.3%	\$729,055,069.54	6.3%	\$801,808,464.43	10.0%	\$835,836,301.12	4.2%	\$883,570,078.33	5.7%
Individual Income Tax (Circuitbreaker)	\$0.00	N/A	\$0.00	N/A	(\$25,976,808.19)	N/A	(\$39,511,481.54)	-52.1%	(\$40,748,498.53)	-3.1%
Individual Income Tax (BETR)	\$0.00	N/A	\$0.00	N/A	\$0.00	N/A	(\$66,201,554.08)	N/A	(\$63,152,855.50)	4.6%
Corporate Income Tax	\$53,126,660.24	13.9%	\$65,915,835.92	24.1%	\$81,890,391.31	24.2%	\$122,495,609.97	49.6%	\$106,541,807.58	-13.0%
Cigarette and Tobacco Tax	\$73,826,990.71	2.9%	\$72,492,856.02	-1.8%	\$72,126,110.34	-0.5%	\$113,821,089.96	57.8%	\$120,356,860.06	5.7%
Public Utilities Tax	(\$128,030.21)	-340.5%	(\$268,757.41)	-109.9%	(\$150,000.00)	44.2%	\$0.00	100.0%	(\$1,854,396.00)	N/A
Insurance Companies Tax	\$31,233,085.89	31.2%	\$29,918,750.03	-4.2%	\$30,151,880.08	0.8%	\$27,820,819.96	-7.7%	\$25,395,847.13	-8.7%
Estate Tax	\$16,564,032.63	65.2%	\$16,732,888.95	1.0%	\$21,377,451.05	27.8%	\$60,068,119.38	181.0%	\$37,282,151.61	-37.9%
Property Tax - Unorganized Territory	\$9,300,585.00	5.4%	\$8,937,092.00	-3.9%	\$9,638,377.00	7.8%	\$9,560,399.00	-0.8%	\$10,403,375.00	8.8%
Income from Investments	\$1,955,137.64	-41.8%	\$1,400,042.60	-28.4%	\$3,221,089.70	130.1%	\$4,567,774.05	41.8%	\$1,547,482.40	-66.1%
Revenue Sharing Transfers	(\$66,812,536.71)	-2.8%	(\$66,592,346.05)	0.3%	(\$75,869,446.44)	-13.9%	(\$77,361,548.39)	-2.0%	(\$80,275,531.88)	-3.8%
Liquor Transfers	\$19,637,498.94	3.7%	\$20,658,510.43	5.2%	\$50,017,501.85	142.1%	\$2,550,891.00	-94.9%	\$0.00	-100.0%
Lottery Transfers	\$29,173,341.93	-2.2%	\$31,227,102.23	7.0%	\$37,090,007.93	18.8%	\$38,760,032.33	4.5%	\$38,127,188.63	-1.6%
Other Revenue	\$115,786,295.10	-1.3%	\$149,085,732.57	28.8%	\$146,867,792.99	-1.5%	\$142,660,548.73	-2.9%	\$149,633,016.21	4.9%
TOTAL GENERAL FUND REVENUE	\$1,540,586,140.45	3.1%	\$1,673,296,942.20	8.6%	\$1,782,106,969.79	6.5%	\$1,839,341,231.36	3.2%	\$1,874,646,029.95	1.9%
HIGHWAY FUND										
Fuel Taxes	\$125,159,350.51	3.0%	\$143,394,920.60	14.6%	\$148,841,224.49	3.8%	\$148,789,886.34	0.0%	\$151,308,790.82	1.7%
Motor Vehicle Registration and Fees	\$58,026,699.88	-0.6%	\$58,394,228.32	0.6%	\$59,298,000.12	1.5%	\$62,605,025.37	5.6%	\$60,389,367.91	-3.5%
Inspection Fees	\$3,036,055.16	32.1%	\$3,513,905.68	15.7%	\$3,058,081.19	-13.0%	\$3,215,881.71	5.2%	\$3,281,583.90	2.0%
Fines	\$1,647,895.07	17.8%	\$1,380,476.83	-16.2%	\$1,288,297.79	-6.7%	\$1,311,985.70	1.8%	\$1,279,557.66	-2.5%
Income from Investments	\$967,892.35	-51.7%	\$407,347.32	-57.9%	\$728,702.31	78.9%	\$1,118,893.87	53.5%	\$600,283.87	-46.4%
Other Revenue	\$6,818,751.99	62.9%	\$7,205,526.03	5.7%	\$6,865,191.99	-4.7%	\$7,539,784.43	9.8%	\$7,445,574.84	-1.2%
TOTAL HIGHWAY FUND REVENUE	\$195,656,644.96	3.1%	\$214,296,404.78	9.5%	\$220,079,497.89	2.7%	\$224,581,457.42	2.0%	\$224,305,159.00	-0.1%

Adjusted for Service Provider Tax Split